

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08  
EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06  
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01  
L-03 /087 W  
-----142143Z 029069 /67  
P 142140Z MAR 77  
FM USMISSION OECD PARIS  
TO SECSTATE WASH DC PRIORITY 5711

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PASS TREASURY, FEDERAL RESERVE, CEA

E.O. 11652: N/A  
TAGS: EFIN, ECON, OECD  
SUBJECT: CFM DISCUSSION OF LDC ACCESS TO CAPITAL MARKETS

REF: (A) CMF(77)3, (B) OECD PARIS 33477

1. SUMMARY: SEPTEL WILL PROVIDE COMPREHENSIVE  
REPORT OF MARCH 10-11 MEETING OF COMMITTEE ON FINANCIAL  
MARKETS (CFM) AND PRECEDING RESTRICTED MEETING WITH PRI-  
VATE BANKERS. THIS MESSAGE REPORTS POINTS OF INTEREST  
ARISING WITH RESPECT TO LDC ACCESS TO CAPITAL MARKETS.  
END SUMMARY.

2. DOCUMENTATION FOR TOUR D'HORIZON AGENDA ITEM (REF A)  
OF MARCH 10-11 MEETING OF CFM DREW ATTENTION TO REPORT OF  
DEVELOPMENT COMMITTEE'S WORKING GROUP (WG) ON ACCESS TO  
CAPITAL MARKETS AND INVITED REACTION TO ANY COMMENTS ON  
THIS TOPIC BY BANKERS PARTICIPATING IN MARCH 9 RESTRICTED  
MEETING PRECEDING CFM. IN INTRODUCING THIS ISSUE AT  
MARCH 10 SESSION, SECRETARIAT POINTED OUT THAT OTHER  
FORUMS HAVE OPERATIONAL RESPONSIBILITY BUT NOTED THAT  
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THE CFM'S MANDATE INCLUDES SUCH QUESTIONS AND THAT IT IS  
RELEVANT TO THE BROADER QUESTION OF IMPEDIMENTS TO INTER-  
NATIONAL FLOWS OF PORTFOLIO CAPITAL, WHICH CFM IS CUR-  
RENTLY STUDYING. THE SECRETARIAT ALSO RECALLED THAT AT  
NOVEMBER MEETING SWITZERLAND HAD PROVIDED A REACTION TO  
WG'S RECOMMENDATION (REF B) AND INVITED OTHER COUNTRIES'  
REACTIONS. HOWEVER, IT WAS AGREED THAT CFM COULD NOT

REVIEW MARCH 17-18 MEETING OF WG AND THAT ANY COMMENTS WOULD HAVE TO ABSTRACT FROM QUESTIONS OF RESOURCE TRANSFERS AND "FOREIGN RELATIONS" DIMENSION OF ISSUE. THUS, DELEGATES COMMENTS WERE CHARACTERIZED AS PERSONAL, REPRESENTING TECHNICAL VIEWS ON ELEMENTS INVOLVED BUT NOT NECESSARILY GOVERNMENTAL POSITIONS. (IT WAS POINTED OUT THAT LDC'S APPROACHED QUESTION FROM A DIFFERENT PERSPECTIVE AND WOULD NOT CONSIDER TECHNICAL CONSIDERATIONS NECESSARILY TO BE ESSENTIAL FACTORS.)

3. NEVERTHELESS, PREDOMINANT IMPRESSION WHICH EMERGED WAS QUITE PESSIMISTIC WITH RESPECT TO WHAT SPECIFIC STEPS COULD BE TAKEN. ALL SPEAKERS WHO ADDRESSED THE POINT CONSIDERED THAT MAIN BARRIER TO LDC ACCESS WAS RESISTANCE OF INVESTORS TO LDC PAPER (BONDS AS DISTINCT FROM BANK CREDITS WERE MAIN FOCUS OF DISCUSSION), AND THAT NOTHING COULD PERSUADE THEM TO DO OTHERWISE IF THEIR RELUCTANCE IS CONSIDERABLE. MOREOVER, MOST DELS CONSIDERED THAT IT IS A MATTER OF COST (HIGHER RISK PREMIA) WHICH IMPEDES LDC BORROWING RATHER THAN INSTITUTIONAL OR REGULATORY BARRIERS TO HIGHER VOLUMES, AND SOME FELT THAT EVEN IF GREATER ACCESS TO BOND MARKETS WERE ACHIEVED THIS WOULD BE OFFSET BY REDUCED FLOWS FROM OTHER SOURCES SUCH AS SYNDICATED BANK CREDITS.

4. SPECIFIC COMMENTS INCLUDED:

(A) ITALY. ARTIFICIAL QUEUE JUMPING WILL NOT WORK. IF THE PROBLEM IS SIMPLY AN EXCESSIVE RISK PREMIUM WHICH LIMITED OFFICIAL USE

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REFLECTS THE PRIVATE MARKETS' PERCEPTION OF A GREATER CREDIT RISK THAN ACTUALLY EXISTS (IN OFFICIAL EYES) DUE TO LACK OF INFORMATION OR OTHER MISCONCEPTION, THEN SOMETHING MIGHT BE DONE--E.G., A GUARANTEE FUND WHICH WOULD SERVE TO IMPART AN OFFICIAL VIEW OF WHAT THE APPROPRIATE CREDIT RISK WOULD BE.

(B) FRB. NO OBJECTION TO PRINCIPLE OF INCREASING FLOWS. BUT QUEUE FOR FOREIGN DM ISSUES IS NOT OFFICIALLY REGULATED BUT SELF-ADMINISTERED BY BANKS. QUEUE JUMPING WOULD ONLY BE POSSIBLE BY THEIR AGREEMENT. WHO WOULD FINANCE GUARANTEE FUND (MENTIONED BY ITALIAN REP)?

(C) JAPAN. UNDERWRITERS IN JAPAN MAKE DECISIONS ON YEN FOREIGN BONDS WITH SOME "GUIDANCE" BY AUTHORITIES, WHO MIGHT GIVE FAVORABLE CONSIDERATION TO WG RECOMMENDATION. GOJ IS STUDYING QUESTION OF EURO-YEN ISSUES "WITH FORWARD LOOKING ATTITUDE." BUT

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REAL CONTRIBUTION IS THROUGH PURCHASE OF BONDS OF INTER-  
NATIONAL LENDING INSTITUTIONS.

(D) FRANCE. TRIED TO HELP THREE SMALL LDC ISSUES.  
GAVE SUBSIDIARY GUARANTEE OF GOF TO FIRST AND FULL  
GUARANTEE TO OTHERS. ISSUES FAILED. GOF HAS CONCLUDED  
THAT INSTITUTIONS ARE UNWILLING TO TAKE SUCH PAPER AND  
THAT FREE MARKET CANNOT BE FORCED.

(E) US. INTER ALIA, NEED TO BE CAREFUL (REGARDING  
POSSIBILITY OF A GUARANTEE FUND) THAT WE DO NOT FRAGMENT  
MARKET.

(F) UK. QUEUE MAINTAINED TO ENSURE ORDERLY CONDI-  
TIONS, NOT TO CONTROL WHICH ISSUES ARE PUT ON THE MARKET.

(G) CANADA. NO RESTRICTIONS. UNCERTAIN WHETHER  
MULTILATERAL DISCUSSION OF ACCESS HAS IDENTIFIED ACTUAL  
PROBLEM.

5. PRIVATE BANKERS VIEWS. AT RESTRICTED MARCH 9  
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SESSION, PRIVATE BANKERS INDICATED THAT VOLUME OF CREDITS TO LDC'S IS LIKELY TO DROP IN VIEW OF GREATER CAUTION TOWARD RISKY BORROWERS. MANY THOUGHT SOLUTION SHOULD BE SOUGHT VIA GREATER COOPERATION WITH INTERNATIONAL INSTITUTIONS, PARTICULARLY THE IMF. HOWEVER, THEY FELT THAT A FUND TO GUARANTEE LDC ISSUES OR TO INCREASE LIQUIDITY OF SECONDARY MARKET WOULD NOT HELP ("50 MILLION WOULD BE GONE IN AN HOUR").  
TURNER

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## Message Attributes

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